



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

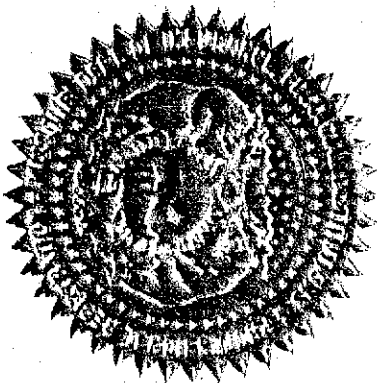
RE: Examination Report of Missouri Care, L.C. as of December 31, 2005

ORDER

After full consideration and review of the report of the financial examination of Missouri Care, L.C. for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, W. Dale Finke, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Missouri Care, L.C., to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

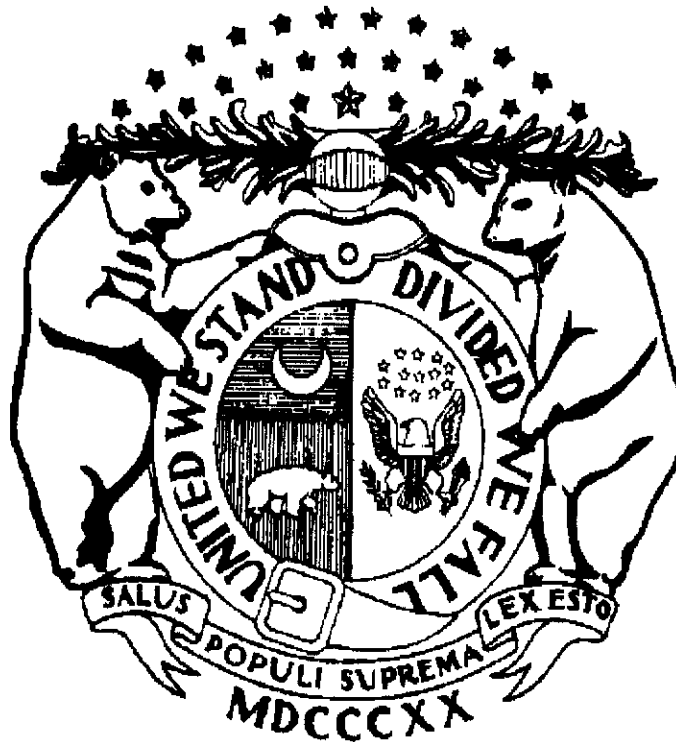
So ordered, signed and official seal affixed this November 14, 2006.



W. DALE FINKE, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
MISSOURI CARE, L.C.**

**AS OF
DECEMBER 31, 2005**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

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Columbia, Missouri
September 14, 2006

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Missouri Care, L.C.

hereinafter referred to as such, as Missouri Care, or as the Company. Its administrative office is located at 2404 Forum Boulevard, Columbia, Missouri 65203, telephone number 573-441-2100. This examination began on May 22, 2006, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Missouri Care was made as of December 31, 2002, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2003, through December 31, 2005, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, KPMG, LLP, of St. Louis, Missouri, for its audit covering the period from January 1, 2005, through December 31, 2005. Information relied upon included a bank confirmation, tests of controls, substantive testing of account balances, and narrative descriptions of processes and controls.

Comments - Previous Examination

The previous financial examination of Missouri Care was conducted by the DIFP for the period ending December 31, 2002. Listed below are the comments, recommendations, and notes from the previous examination report, the Company's response, and the findings in the current examination.

Conflict of Interest

Comment: It was recommended that the Company ensure that all of the Board of Managers, Operating Board members, and Schaller Anderson of Missouri, LLC (SAMO) officers and key employees sign a conflict of interest compliance statement on an annual basis in compliance with the Company's conflict of interest policy.

Company's Response: The Company stated that conflict of interest statements are signed yearly by the Board of Managers, Operating Board, and by key employees of SAMO.

Current Findings: Deficiencies were noted in the completion of conflict of interest statements during the current examination period. Refer to the Conflict of Interest section of this report for a complete description.

Intercompany Agreements

Comment: It was recommended that the Company should file the Clinics Agreement with Capital Region Medical Center (CRMC) with the DIFP for approval, as required by Section 382.195 RSMo (Transactions Within a Holding Company System). The Company should file the agreement in a Form D filing in accordance with Missouri Regulation 20 CSR 200-11.101 and ensure that any future intercompany agreements are properly filed for prior approval.

Company's Response: The Company stated that it filed all agreements with CRMC in a Form D filing with the DIFP and has included them on the Form B and Form C reports that are submitted annually.

Current Findings: The Company's provider agreements with CRMC have been properly filed and approved by the DIFP.

Fidelity Bond Insurance

Comment: It was recommended that the Company obtain fidelity bond coverage on either a stand-alone basis to meet the NAIC's suggested guidelines or ensure that it is included as a named insured on the University of Missouri's (the University) fidelity bond. It was further recommended that the Company either obtain its own insurance policies for property, errors and omissions, general liability, and other risks or become a named insured on the policies of the University. If Missouri Care is added as a named insured to the University's policies, the Company should obtain an agreement whereby the University agrees to indemnify Missouri Care for any deductibles above levels that would be considered reasonable for Missouri Care on a stand-alone basis.

Company's Response: The Company did not respond to this recommendation.

Current Findings: The Company could not provide any documentation of fidelity bond insurance. Other insurance coverages and deductibles for Missouri Care were reasonable. Refer to the Fidelity Bond and Other Insurance section of this report for a complete description.

Premium Deficiency Reserve

Comment: It was recommended that the Company's management should ensure that its actuary opines as to whether premium deficiency reserves are necessary in future certified actuarial opinions.

Company's Response: The Company stated that it has made sure that the actuary includes an opinion on the premium deficiency reserve in the certification of Missouri Care's reserves.

Current Findings: The actuarial opinions issued by the actuaries listed in the Accounts and Records section of this report, for 2003, 2004, and 2005, included certifications on the amount of premium deficiency reserve recorded for each year.

Health Care Receivables

Comment: It was recommended that the Company ensure that overpayments to providers are only reported as admitted assets to the extent the overpayments are offset by payables due to the same providers for reported claims.

Company's Response: The Company stated that it reconciles the overpayments to providers with the amount that is owed on a monthly basis and makes adjustments accordingly on the Quarterly and Annual Statements.

Current Findings: The admitted assets reported for receivables from overpayments to providers were properly calculated, as required by paragraph 14 of Statement of Statutory Principle (SSAP) No. 84, Health Care Receivables.

HISTORY

General

Missouri Care was organized as a not-for-profit, limited liability company (LLC) under the Missouri Limited Liability Company Act (Chapter 347 RSMo) on September 2, 1997. The Company is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). A Certificate of Authority to operate as a Health Maintenance Organization under Chapter 354 RSMo (Health Services Corporations – Health Maintenance Organizations – Prepaid Dental Plans), was issued by the DIFP on November 4, 1997. The Company began insuring members effective March 1, 1998.

The Company is owned solely by The Curators of the University of Missouri (the University of Missouri, or the University), which is a not-for-profit, governmental entity. The Company's stated purpose is to operate "on behalf of the University to ensure sufficient numbers of patients as necessary to support the University's medical educational and research missions" and to "provide quality, cost effective health care services to residents of central Missouri through the Missouri Medicaid Managed Care Program."

Capital Stock

Missouri Care does not have any capital stock ownership because of its organization as an LLC. The University's ownership interest in Missouri Care is authorized in the Company's Operating Agreement.

Dividends

No dividends or cash distributions were made or declared during the examination period.

Management

The management of the Company is vested in a Board of Managers that are appointed by the University. The Board of Managers appointed and serving as of December 31, 2005, were as follows:

<u>Name and Officer Title</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Natalie M. Krawitz, President	Columbia, MO	Vice President of Finance and Administration, University of Missouri
Jacquelyn K. Jones	Columbia, MO	Vice Chancellor of Administrative Services, University of Missouri
James H. Ross	Columbia, MO	Chief Executive Officer, University of Missouri Health Care (UMHC)

There are no formal or informal committees of the Board of Managers.

Administrative Procedures were adopted by the Board of Managers, which are similar to the Bylaws of other HMOs and insurance companies. The Administrative Procedures created an Operating Board, which is delegated the authority to manage Missouri Care's operations. The Operating Board is to consist of at least three members appointed by the Board of Managers. However, the Operating Board was consistently staffed with seven members during the examination period.

The Operating Board members appointed and serving as of December 31, 2005, were as follows:

<u>Name and Officer Title</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Jeri L. Doty, President	Columbia, MO	Chief Planning Officer, UMHC
Kevin J. Necas, Secretary and Treasurer	Columbia, MO	Chief Financial Officer, UMHC
James R. Green, M.D., J.D.	Columbia, MO	Chairman, Department of Obstetrics and Gynecology, University of Missouri-Columbia (UMC)
James R. McMillan	Jefferson City, MO	Chief Financial Officer, Capital Region Medical Center
Harold A. Williamson, Jr., M.D.	Columbia, MO	Chairman, Department of Family Medicine, UMC
Lisa J. Wimmenauer, J.D.	Columbia, MO	Associate Director, Office of Business Services, UMC
Gregory M. Worsowicz, M.D.	Columbia, MO	Chairman, University Physicians

The Operating Board has several informal committees that operate on a regular basis. The members of the committees are appointed on an ad-hoc basis and generally consist of employees, Board members, and network physicians. The committees in operation as of December 31, 2005, were as follows: Finance, Medical Quality Management, Pharmacy and Therapeutics, Compliance, Credentials, and Quality Management Oversight.

A third-party administrator (TPA), Schaller Anderson of Missouri, LLC, performs most of Missouri Care's day-to-day business operations. The University has a Plan Management Services Agreement with SAMO, effective August 27, 1997, which was assigned to Missouri Care, effective September 2, 1997. Under the terms of the Agreement, SAMO employees will provide various services to manage Missouri Care. These services are to include quality and utilization management, provider relations, customer services, payment of claims, marketing, information services, accounting, financial reporting, and other services.

The Agreement requires that the Operating Board of Missouri Care must approve the SAMO personnel selected to serve as the Chief Executive Officer, Chief Financial Officer, and Chief Medical Officer. The Operating Board must also approve the annual operating budget and the annual management plan for Missouri Care, which are developed and submitted by SAMO.

Missouri Care pays SAMO a monthly management fee that is to be the greater of \$180,000, or 12% of the Company's total revenues each month. The management fee of 12% is reduced 0.1% for every 10,000 members in excess of a base level of 10,000. During 2005 and 2006, the monthly management fees were 11.8% of revenues, based upon the Company's membership level in excess of 30,000. Total management fees paid to SAMO in 2005 were \$9,254,759.

The officers of SAMO appointed and serving as of December 31, 2005, were as follows:

Chief Executive Officer	Donna E. Checkett
Chief Financial Officer	Susan S. Christy
Chief Medical Officer	Jan Swaney, M.D.

Conflict of Interest

The Company has a conflict of interest policy that requires the members of the Board of Managers, Operating Board members, and employees of SAMO to annually sign a statement to affirm compliance with the policy. The members of the Board of Managers did not complete conflict of interest statements in 2004 and SAMO employees did not complete statements for any year in the examination period. The failure to properly complete conflict of interest forms was also mentioned in the prior examination report. Once again, it is recommended that the Company ensure that all members of the Board of Managers, Operating Board, and SAMO employees complete a conflict of interest statement, as required by the Company's policy.

Corporate Records

The Articles of Organization, Operating Agreement, and the Administrative Procedures were reviewed. There were no amendments to any of these corporate documents during the examination period.

The Board of Managers' meeting minutes, Operating Board meeting minutes, and the Committee meeting minutes were reviewed for the examination period and subsequent periods. The minutes, in general, appear to properly reflect and approve the Company's transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

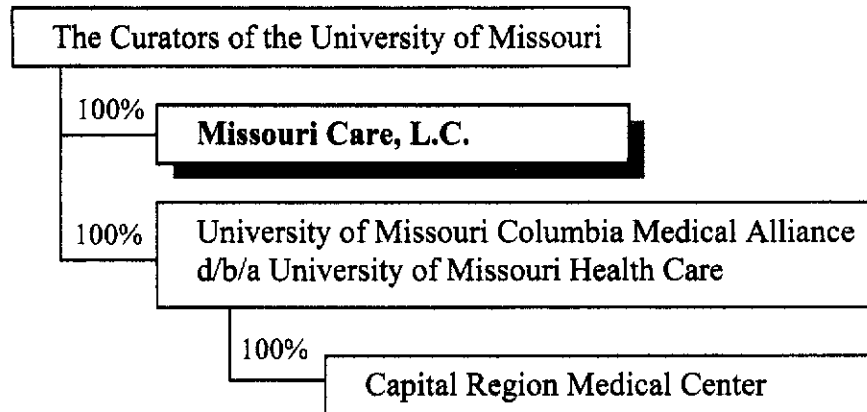
The Company is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Missouri Care for each year of the examination period. Missouri Care is a wholly owned subsidiary of The Curators of the University of Missouri.

The University is a public corporation and educational institution of the State of Missouri. The University conducts education, research, public service and related activities principally at its four campuses in Columbia, Kansas City, Rolla and St. Louis. Missouri Care transacts business only with components of the University of Missouri-Columbia campus.

University of Missouri Columbia Medical Alliance, d/b/a University of Missouri Health Care (UMHC), is a subsidiary of the University. UMHC is a network of hospitals, clinics, and physicians that deliver health care services for residents of central Missouri and serve as teaching and research facilities for medical students and faculty of the University. The network of providers owned by UMHC provide the majority of services for Missouri Care's members. The largest UMHC providers for Missouri Care, based upon the amount of claim payments, are University Hospital, Columbia Regional Hospital, and University Physicians. UMHC also owns Capital Region Medical Center, which is also a significant provider for Missouri Care members.

Organizational Chart

The following organizational chart depicts Missouri Care's ownership, and selected subsidiaries in the University's holding company system, as of December 31, 2005:



Intercompany Transactions

The Company's intercompany agreements in effect, as of December 31, 2005, are outlined below.

1. **Type:** Administrative Services Agreement
Affiliate: The Curators of the University of Missouri
Effective: September 2, 1997
Terms: University employees shall provide finance, investment management, strategic planning, managed care, legal, and other services, as requested, for Missouri Care. The costs charged to Missouri Care shall be the actual costs incurred by the University to provide the services or a reasonable allocation if the specific costs cannot be identified. This agreement was not utilized during the examination period.

2. **Type:** Fidelity Bond Deductible Agreement
Affiliate: The Curators of the University of Missouri
Effective: September 2, 1997
Terms: Missouri Care will be a named insured on the fidelity bond of the University, which has a deductible of \$25,000. In the event that a claim is made against Missouri Care, the University agrees to pay Missouri Care for the amount of the deductible. The payment shall be deemed a capital contribution.

- 3. Type:** Participating Health Provider Agreements (four in total) – Hospital, Primary Care Physician (PCP), Primary Care Obstetrician (PCO), Participating Specialist Physician (PSP)
- Affiliate:** The Curators of the University of Missouri
- Effective:** January 1, 1998
- Terms:** The University's hospitals, clinics, and physicians provide medical services for Missouri Care's members. In general, the rates for services provided under the PCP, PCO, and PSP Agreements are to be paid by the Company at 140% of the Medicaid Fee Schedule established by the State of Missouri, with minor exceptions. Under the Hospital Agreement, the Company pays the University per diem rates for inpatient hospitalization of its members. The rates vary depending on the type of care (surgery, intensive care, etc.) that is provided. The Company pays 67.3% of the University's billed charges for outpatient services.
- 4. Type:** Participating Health Provider Agreements (two in total) – Hospital and Clinics
- Affiliate:** Capital Region Medical Center
- Effective:** January 1, 1998
- Terms:** CRMC's hospitals, clinics, and physicians provide medical services for Missouri Care's members. In general, the rates for services provided by PCPs, PCOs, and PSPs under the Clinic Agreement are to be paid by the Company at 140% of the Medicaid Fee Schedule established by the State of Missouri, with minor exceptions. Under the Hospital Agreement, the Company pays CRMC per diem rates for inpatient hospitalization of its members. The rates vary depending on the type of care (surgery, intensive care, etc.) that is provided. The Company pays 55% of the CRMC's billed charges for outpatient services.
- 5. Type:** Nurse Triage and Health Information Services Agreement
- Affiliate:** The Curators of the University of Missouri
- Effective:** March 1, 1998
- Terms:** The University shall provide a services program, known as "Health Connect 24", that will be made available to Missouri Care members. The program will allow members to call a telephone number and receive health information, clinical assessment, counseling and education either from recorded messages or from direct conversation with Registered Nurses of the University. The program will also allow members to attend free education classes for a variety of health issues. The Company shall pay a monthly fee of fifty cents (\$0.50) per member per month and the scheduled rates for education classes.

6. **Type:** Investment Management Agreement
Affiliate: The Curators of the University of Missouri
Effective: March 4, 1998
Terms: The University shall manage the cash and investments of Missouri Care in accordance with the investment policy of the University. The University shall not be entitled to a fee for the administration of Missouri Care's funds.
7. **Type:** Credentialing Services Agreement
Affiliate: The Curators of the University of Missouri
Effective: March 4, 1998
Terms: The Company delegates the responsibility for credentialing the University physicians and facilities in Missouri Care's network to the University. Missouri Care is allowed to perform an annual audit of the credentialing procedures and files for University providers to ensure that the credentialing is conducted in accordance with Missouri Care's guidelines. There is no stated compensation to be paid by Missouri Care for the credentialing services.

Intercompany Payments

The following table summarizes the payments made during the examination period, from Missouri Care to its affiliates, pursuant to intercompany agreements.

Related Party	Agreement	Amount Paid		
		2003	2004	2005
University of Missouri	Nurse Triage and Health Info.	\$ 113,381	\$ 121,005	\$ 122,472
University of Missouri	Provider Agreements	19,393,145	23,034,295	26,203,228
CRMC	Provider Agreements	3,561,553	4,497,496	5,115,876
TOTAL		\$23,068,079	\$27,652,796	\$31,441,576

FIDELITY BOND AND OTHER INSURANCE

The Company apparently is not a named insured on any policy for fidelity insurance coverage. No policy for such coverage was provided during the examination. The Company is required to have \$100,000 of fidelity bond coverage, pursuant to Section 354.425 RSMo (Surety Bond Requirements). Further, the NAIC Financial Examiner's Handbook recommends that Missouri Care have a fidelity bond of \$500,000, based upon a formula using admitted assets and gross income.

The Company's business operations are managed mostly by the employees of a TPA, SAMO, pursuant to a Plan Management Services Agreement that is described in the Management and Control section of this report. Article 5.2 of this Agreement states that SAMO will indemnify the Missouri Care (the assignee) for any negligent or intentional misconduct committed by its employees while conducting Missouri Care's business activities. This clause provides protection against any fraudulent acts that could be committed by SAMO employees, but does not represent insurance coverage. Employees of the University also have the ability to perform limited transactions on behalf of Missouri Care. The Company currently does not have any contractual safeguards against any fraudulent acts that could be committed by University employees, acting on behalf of Missouri Care.

It is recommended that the Company immediately obtain fidelity bond coverage or equivalent coverage, such as a commercial crime and employee dishonesty policy, to comply with insurance requirements of Section 354.425 RSMo and the insurance recommended by the NAIC Financial Examiner's Handbook. Any policy obtained should be for at least \$500,000 of coverage and should specifically list Missouri Care as a named insured. The policy should also be endorsed to cover any acts of dishonesty or crime that could be committed by SAMO or University employees, acting on behalf of Missouri Care.

The Second Amendment to the Plan Management Services Agreement between the Company, the University, and SAMO, requires the University to either self-insure or obtain insurance covering the University and Missouri Care with a minimum policy limit of \$5,000,000 for the following lines of insurance: commercial general liability, managed care errors and omissions, professional liability, and directors and officers liability. The University self-insures the commercial general liability and hospital professional liability insurance applicable to Missouri Care. The Company is a named insured on policies providing coverage for managed care errors and omissions liability, health care umbrella liability, and a performance bond required under its Medicaid contract with the State of Missouri.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Missouri Care does not have any direct employees. The Company's business operations are managed mostly by the employees of a third-party administrator, SAMO. Missouri Care indirectly pays for the salaries and benefits of the SAMO employees through fees that are paid each month pursuant to a Plan Management Services Agreement, as described in the Management and Control section of this report.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2005, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 354.410 RSMo (Trust Deposits and Capital Requirements) and Section 354.551 RSMo (Point of Service Riders). The funds on deposit were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Bill	\$1,169,000	\$1,152,050	\$1,144,861

Deposits with Other States

The Company does not maintain funds on deposit with any other state.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Missouri Care is licensed in the State of Missouri under Chapter 354 RSMo, as it relates to Health Maintenance Organizations. The Company operates under the name of Missouri Care Health Plan. The service territory is concentrated in 18 counties in central Missouri. The Company's only product is Medicaid managed care. The Company enters into contracts with the State of Missouri to provide insurance for the Medicaid eligible population. The currently effective contract began July 1, 2006 and ends June 30, 2007, with options to renew for two successive one-year periods.

Missouri Care had 32,396 members, as of December 31, 2005. Approximately 59% of the members were children of ages 13 and under. A Medicaid eligible person must be enrolled through the State of Missouri. An enrollee becomes a Missouri Care member by either selecting Missouri Care over competitors or by being randomly assigned to Missouri Care if the enrollee does not make a selection. The Company does not utilize any brokers or agents and does not have any direct solicitation for membership, as required by its contract with the State of Missouri. The Company's marketing activities to increase membership include meetings with community services organizations, conducting community health programs and other events, and limited advertising.

The premium rates for each member are established through the contractual bid process with the State of Missouri. All premiums due to Missouri Care are paid entirely by the State of Missouri on behalf of the members.

The Company has contracts with primary care physicians, specialists, ancillary providers, hospitals, and provider organizations to provide medical care for its members. Physician services are compensated on a fee-for-service basis. Hospital rates are based upon negotiated per diem rates, percentage discounts from billed charges, or specific case rates. Approximately 57% of the claim payments in 2005 were to the University for medical services provided by hospitals, physicians, and other providers owned by the University.

Policy Forms & Underwriting;
Advertising & Sales;
Treatment of Policyholders

The Missouri Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff that performs a review of these issues and generates a separate market conduct report. However, there were no DIFP market conduct examination reports issued for the Company during the examination period.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct Business	\$65,897,734	\$73,283,150	\$77,929,943
Reinsurance Assumed	0	0	0
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	<u>(955,352)</u>	<u>(655,897)</u>	<u>(508,164)</u>
Net Premiums Written	<u>\$64,942,382</u>	<u>\$72,627,253</u>	<u>\$77,421,779</u>

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The Company has an excess of loss reinsurance agreement, effective March 1, 2005 to March 1, 2006, with Munich American Reassurance Company (Munich Re). This agreement covers 80% of inpatient hospital expenses in excess of the Company's retention of \$75,000 per member, up to a maximum of \$1,000,000 per member, per year. The net maximum reinsurance coverage per member, per year, is \$740,000 after applying the Company's retention for the first \$75,000 losses and the Company's 20% coinsurance for the next \$925,000 of losses. Organ transplant costs are excluded and there are daily hospital limits stated in the agreement. Missouri Care is eligible for an experience refund if Munich Re's loss ratio is less than 70% for the agreement year. The calculation of the refund is 70% of premiums paid by Missouri Care less reinsurance losses paid by Munich Re. The Company will receive a refund equal to 30% of any positive balance that results from this calculation.

The Company entered into a new excess of loss reinsurance agreement, effective March 1, 2006 to February 28, 2007, with Munich Re. The Company's retention and coinsurance percentage, maximum covered losses, experience refund provisions, and other terms are essentially the same as those in the prior year agreement with Munich Re. The only applicable losses that may be ceded to this agreement are for inpatient hospital care, excluding organ transplants.

ACCOUNTS AND RECORDS

General

The CPA firm, Deloitte & Touche, LLP, of St. Louis, Missouri, issued audited statutory financial statements of the Company for 2003. The CPA firm, KPMG, LLP, of St. Louis, Missouri, issued the audited financial statements of the Company for 2004 and 2005. The Company stated that the decision to change CPA firms was made by Missouri Care's parent company, the University, and that there was no disagreement or issues with Deloitte & Touche, LLP that led to the change.

The reserves for claims unpaid and unpaid claims adjustment expenses were reviewed and certified by David O. Thoen, FSA, MAAA for the year ending December 31, 2003. Mr. Thoen is employed by the Deloitte Consulting, LLP office in Minneapolis, Minnesota. The reserves for claims unpaid and unpaid claims adjustment expenses were reviewed and certified by Charles D. Friedstat, FSA, MAAA, for the years ending December 31, 2004 and December 31, 2005. Mr. Friedstat is employed by the Chicago, Illinois office of KPMG, LLP.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Missouri Care for the period ending December 31, 2005. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets as of December 31, 2005

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash and Short-Term Investments	\$ 8,019,581	\$ 0	\$ 8,019,581
Investment Income Due and Accrued	15,100	0	15,100
Amounts Recoverable from Reinsurers	97,640	0	97,640
Health Care and Other Amounts Receivable	<u>7,431,641</u>	<u>10,517</u>	<u>7,421,124</u>
TOTAL ASSETS	<u>\$15,563,962</u>	<u>\$10,517</u>	<u>\$15,553,445</u>

Liabilities and Net Worth as of December 31, 2005

Claims Unpaid	\$ 7,624,411
General Expenses Due or Accrued	54,841
Aggregate Write-Ins for Other Liabilities:	
Premium Deficiency Reserve	<u>0</u>
TOTAL LIABILITIES	\$ 7,679,252
Contributed Capital	14,300,000
Retained Earnings / Fund Balance	<u>(6,425,807)</u>
TOTAL NET WORTH	\$ 7,874,193
TOTAL LIABILITIES AND NET WORTH	<u>\$15,553,445</u>

Statement of Revenues and Expenses For the Year Ended December 31, 2005

REVENUES:	
Net Premium Income	\$79,616,609
TOTAL REVENUES	\$79,616,609
HOSPITAL AND MEDICAL:	
Hospital / Medical Benefits	44,774,269
Other Professional Services	2,336,640
Emergency Room and Out-of-Area	9,689,959
Prescription Drugs	10,986,626
Less Net Reinsurance Recoveries	<u>(373,251)</u>
TOTAL HOSPITAL AND MEDICAL	\$67,414,243
General Administrative Expenses	11,684,976
Increase in Reserves for Accident and Health Contracts	<u>(1,431,941)</u>
TOTAL UNDERWRITING DEDUCTIONS	\$77,667,278
NET UNDERWRITING GAIN	\$ 1,949,331
Net Investment Income Earned	331,277
Less Federal Income Taxes Incurred	<u>0</u>
NET INCOME	<u>\$ 2,280,608</u>

Capital and Surplus Account as of December 31, 2005

CAPITAL AND SURPLUS BEGINNING OF YEAR	\$5,466,828
Gains and Losses to Capital and Surplus:	
Net Income	2,280,608
Change in Non-Admitted Assets	(144,915)
Aggregate Write-In: Prior Period Adjustment	<u>271,674</u>
CAPITAL AND SURPLUS END OF YEAR	<u>\$7,874,195</u>

Notes to the Financial Statements

None.

Examination Changes

None.

General Comments and/or Recommendations

Conflict of Interest (page 6)

The members of the Board of Managers did not complete conflict of interest statements in 2004 and SAMO employees did not complete statements for any year in the examination period. The Company should ensure that all members of the Board of Managers, Operating Board, and SAMO employees complete a conflict of interest statement, as required by the Company's policy.

Fidelity Bond Insurance (pages 10, 11)

The Company apparently is not a named insured on any policy for fidelity insurance coverage. No policy for such coverage was provided during the examination. The Company is required to have \$100,000 of fidelity bond coverage, pursuant to Section 354.425 RSMo (Surety Bond Requirements). Further, the NAIC Financial Examiner's Handbook recommends that Missouri Care have a fidelity bond of \$500,000, based upon a formula using admitted assets and gross income.

It is recommended that the Company immediately obtain fidelity bond coverage or equivalent coverage, such as a commercial crime and employee dishonesty policy, to comply with insurance requirements of Section 354.425 RSMo and the insurance recommended by the NAIC Financial Examiner's Handbook. Any policy obtained should be for at least \$500,000 of coverage and should specifically list Missouri Care as a named insured. The policy should also be endorsed to cover any acts of dishonesty or crime that could be committed by SAMO or University employees, acting on behalf of Missouri Care.

SUBSEQUENT EVENTS

The Company's capital and surplus declined from \$7,874,195, as of December 31, 2005, to \$6,053,378, as of June 30, 2006, which represents a 23.1% decrease. Most of the decrease is the result of a premium deficiency reserve of \$1,220,890 that was recorded, as of June 30, 2006, for projected losses from the Missouri Medicaid contract for the contract year beginning July 1, 2006 and ending June 30, 2007. The remaining decrease was due to increased claim costs of Missouri Care members and the elimination of supplemental revenue from babies delivered to members, which were known as "Kick" payments.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Care, L.C. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, and Andy Balas, CFE, examiners for the Missouri DIFP, participated in this examination. The firm of Lewis & Ellis, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of Boone)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Missouri Care, L.C., its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim L. Tunks
Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 13th day of September 2006.

My commission expires: 10/2/2008 Susan M. Greenfield
Notary Public

SUSAN M. GREENFIELD
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI, COUNTY OF BOONE
COMMISSION #04478801
MY COMMISSION EXPIRES OCT. 2, 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Frederick G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri DIFP



Missouri CareTM
H E A L T H P L A N

October 25, 2006

Mr. Kirk Schmidt, CFE, CPA
Chief Financial Examiner
State of Missouri
Department of Insurance
PO Box 690
Jefferson City, Missouri 65102-0690

RECEIVED
OCT 31 2006

DEPT. OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Dear Mr. Schmidt:

This is submitted in response to the draft of the audit report for Missouri Care Health Plan for the Year Ended December 31, 2005. The responses are offered in the order in which the comments were presented under the **General Comments and/or Recommendations** starting on page 18 of the draft report forwarded to the Company on October 16, 2006.

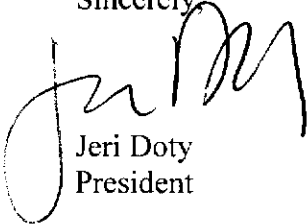
Conflict of Interest

The Department recommended that the Board of Managers, Operating Board members and Schaller Anderson of Missouri officers and key employees sign a conflict of interest compliance statement on an annual basis. The Company concurs with this finding and will ensure that the conflict of interest statements are signed on an annual basis.

Fidelity bond Insurance

The Department recommended that the Company immediately obtain a fidelity bond with at least \$500,000 of coverage and that Missouri Care should specifically be listed. Also the policy should be endorsed to cover any acts of dishonesty or crime that could be committed by SAMO or any University employees, acting on behalf of Missouri Care. The company concurs with these findings and will begin searching for such coverage.

Sincerely,



Jeri Doty
President